QUESTAR

Memorandum

Gas Company

To : **Utah Public Service Commission**

From : Questar Gas Company
Barrie McKay, Manager State Regulatory Affairs

Date : September 15, 2006

Subject : **REPLY COMMENTS BY QUESTAR GAS COMPANY CONCERNING THE GSS/EAC TASK FORCE REPORT AND THE OPPOSING COMMENTS TO THE REPORT BY THE COMMITTEE OF CONSUMER SERVICES (Docket No. 05-057-T01)**

Introduction

On September 14, 2006, the Division of Public Utilities (Division) on behalf of the task force filed the report (Report) of the GSS/EAC Task Force (Task Force) that the Utah Public Service Commission (Commission) established in Docket 05-057-T01. The recommendations included in the Report reflect the opinions of the majority of the task force participants, including the Division, Questar Gas (Company) and the Utah Counties Economic Development Group (UCEDG). The Report recommended that the GSS, IS-4 and ITS rate schedules be eliminated and that the customers receiving service under those schedules be rolled into the GS-1, I-4 and IT rate schedules respectively. It is also recommended that the Expansion Area Charges (EAC) be terminated. It is further recommended that the revenue requirements for the GSS, IS-4, ITS and EAC be rolled into the current rates for the GS-1, I-4 and IT rate schedules such that the change is revenue neutral for the combined classes. Finally, the Task Force recommends that future expansion of the Questar Gas distribution system into new communities not be considered unless the funding for the non-refundable contribution required to extend to a community is provided from third party sources.

On that same day, the Committee of Consumer Services (Committee) also filed comments (CCS Comments) regarding the Task Force and offered an opposing recommendation. The Committee recommended that the Commission convene a technical conference to discuss the issue further. The Committee was the only participant in the Task Force that voiced a dissenting opinion against the Report. In the CCS Comments, there are several statements and conclusions that are inaccurate and may be misleading. In addition, the Committee's recommendation for a technical conference is not necessary to the process that has already taken place. There has already been a technical conference held and numerous task force and working group meetings. Because of these issues related to the CCS Comments, Questar Gas feels compelled to respond to these reply comments.

Inaccuracies

The Committee begins the CCS Comments by attempting to state the issue before the Commission with regard to the GSS and EAC customers. The CCS Comments state "that the un-recovered expansion costs associated with customers currently taking service under the GSS rates and the EAC Tariff are approximately $1.7 million." This statement is inaccurate. Exhibits 6 and 7 attached to the Report are documents handed out during the Task Force meetings. The second page of Exhibit 6 shows the impact of eliminating the GSS, IS-4 and ITS rate schedules. As can be seen in the total of the last column, the total annual revenue change would be about $1.25 million. This does not represent "un-recovered expansion costs" only the annual revenues paid by the GSS customers in excess of what they would pay under the GS-1 schedule. Exhibit 7 shows the EAC areas, the revenues that are being collected from those areas and the expected payoff dates for each area at various interest rates. The column labeled "Latest 12 Months Payments" shows the amount of revenues, $545,878, currently being collected from the EAC customers in all the areas. Again, this is not the "un-recovered expansion costs" only the annual revenues collected through the EAC in addition to the GS-1 tariff rates. The combination of this $0.5 million from EAC and $1.25 million from GSS that make up the "$1.7 million "of unrecovered expansion costs" referenced in the CCS Comments, are in fact total annual revenues being collected.

The Committee further states in its Comments, page 3 that "the Utility cannot document that the revenue shortfall sums to $1.2 million." However, the documentation does in fact exist. On page 2 of Exhibit 6 of the Report, the annual revenue shortfall from eliminating the GSS rates is provided.

On page 4 of the CCS Comments, the Committee states that "QGC provided information showing that the unpaid loan balances for these nine communities totaled roughly $500,000." Once again, it becomes apparent that the Committee has not understood the information distributed by the Company. They are referring to the document provided during the Task Force meeting and attached as Exhibit 7 to the Report. They appear to be referring to the column labeled "Latest 12 Month Payments" which totals $545,878. This column, as has already been explained, does not represent the unpaid loan balances for the communities**,** but the amount of EAC payments by these communities during the 12 months ending May 2006. To find the unpaid loan balances, one could refer to the column labeled "Current Owing". At the currently allowed interest for the EAC of 9.64%, the amount owing totals to $4,085,079 for the nine communities.

In addition to characterizing the $1.7 million inaccurately, it needs to be pointed out that there are no un-recovered expansion costs in current rates. In the last general rate case, Docket No. 02-057-02, in the cost-of-service portion of the case, the Commission approved a revenue requirement amount for the GS-1 and GSS customers as a combined group (this group also includes the EAC customers that also pay GS-1 rates). All costs to serve these customers, including all rate base amounts, O&M expenses, taxes, etc., were included in calculating the revenue requirement. In designing the rates for these classes, the premium revenues from the GSS and EAC customers were included. The effect of including these revenues was that GS-1 rates were decreased slightly. The proposal in the Report is to equalize the rates for this entire group of customers by removing the GSS and EAC premiums and increasing the GS-1 rates slightly ($0.19 per customer per month on average). In the Company's opinion, the choices available are to 1) accept the recommendation of the majority of the Task Force, or 2) leave the rates as they are until the scheduled expiration of the GSS and EAC provisions in the Tariff.

In addition, in reviewing the background of the GSS rates, the Committee states that "it became apparent in the Task Force discussions that QGC does not have the necessary records to accurately determine whether the monies collected from customers via the GSS rates are sufficient to cover the actual expansion costs." This is a misleading statement. In fact, the Company has all the necessary records to determine whether the payments from the GSS customers have been what were expected in the original setting of those GSS rates. That is not the issue. The issue, as stated in the Task Force Report by the Division in the Report, is to "consider the implications of the age old battle between the concepts of 'fairness and functional efficiency'." (page 7). It is undisputed that these customers were to pay these premium rates for 20 years. This is the question: Now that we are 13 years into the process, is it still appropriate for the GSS customers to continue to pay the premium rates, particularly in light of the fact that the previous GSS areas paid only 10 years and the Utah Gas customers paid for less than two years? It was the opinion of all other participants in the Task Force that it is no longer appropriate.

On page 2 of the CCS Comments, the Committee, in reference to the change in interest rates applied to the EAC, states that "this reduced the EAC charges and made them more consistent with the GSS rates." Once again, this is an inaccurate statement. The change of interest rates approved by the Commission on September 30, 2005, did not change any of the EAC amounts. The effect of this interest rate reduction was to decrease the required time the EAC areas will pay the charge.

Committee Recommendation

The Committee recommends that the Commission hold an additional technical conference on this matter. Such a technical conference is unnecessary. As mentioned above, during 2005 the Commission Staff held several meetings to discuss this issue and the Commission held a technical conference on November 5, 2005. In addition, the Commission created a Task Force on May 26, 2006, which met four times (minutes are attached to the Report). The Committee participated fully in all of those meetings. The Company provided all data requested by the participants and was available to answer questions about this data during the task force meetings. The issues in this regard have been presented and fully discussed several times. If the Committee had wanted to suggest an alternative course of action, they had ample opportunity to do so in the CCS Comments to the Task Force. They have failed to recommend any course of action other than further discussion. The Company can see no additional benefit from another technical conference.

cc: Division of Public Utilities
Committee of Consumer Services
Utah Counties Economic Development Group